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E.O. 12356: N/A
TAGS: EAID, EPET, IBRD, CO
SUBJECT: U.S. STATEMENT ON IBRD LENDING TO COLOMBIA

REF: (A) STATE 11791X OF APRIL 21, 1984;
(B) BOGOTA 13107 AND PREVIOUS

1. THE FOLLOWING IS THE STATEMENT MADE BY THE U.S.
EXECUTIVE DIRECTOR TO THE WORLD BANK ON NOVEMBER 6, 1984.
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BEGIN TEXT:

-- COMPARED TO SEVERAL PETROLEUM AND GAS OPERATIONS WE
HAVE COMMENTED ON CRITICALLY IN THE PAST, THIS PARTICULAR

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ONE HAS CERTAIN POSITIVE FEATURES. THE PRESENCE OF PRIVATE EQUITY AND RECENT MEASURES ADOPTED BY THE COLOMBIAN GOVERNMENT TO ATTRACT MORE PRIVATE CAPITAL INTO THIS SECTOR ARE WELCOME. CERTAIN ASPECTS OF THIS PROJECT ARE NOT AT ISSUE: FOR EXAMPLE, WE CAN SEE A MODEST ROLE FOR THE BANK IN PROVIDING A TECHNICAL ASSISTANCE FACILITY TO THE BORROWING AGENCY, ECOPETROL. WE CAN ALSO SEE THE CASE FOR A MODEST FACILITY FOR THE PIPELINE FINANCING COMPONENT OF THE PROJECT. HOWEVER, THE BANK'S ABILITY TO MAKE DISTINCTIONS ON THE BASIS OF ALTERNATIVE SOURCES OF FINANCE IS CRUCIAL IF IT IS TO PROPERLY HUSBAND ITS SCARCE RESOURCES. THUS, WE HAVE GRAVE DOUBTS WITH RESPECT TO THE SECONDARY RECOVERY AND FIELD DEVELOPMENT PORTIONS OF THE PROJECT.

-- WE BELIEVE THAT THE ALREADY HIGH RATES OF RETURN ON THE SECONDARY RECOVERY PROJECT AND THE FIELD DEVELOPMENT PORTIONS OF THIS PROJECT PROVIDE THE BASIS FOR UNDERTAKING THOSE PORTIONS WITHOUT IBRD PARTICIPATION, OTHER THAN THROUGH THE TECHNICAL ASSISTANCE PORTION OF THE PROJECT.

-- FURTHERMORE, WE FIND THE DISCUSSION OF PETROLEUM PRICING TO BE SOMEWHAT VAGUE AND INCOMPLETE, AND WE BELIEVE A COVENANT WITH THE GOVERNMENT ON PRICING WOULD HAVE BEEN FAR PREFERABLE TO THE FINANCIAL COVENANTS FOR ECOPETROL.

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-- AN ADDITIONAL CONCERN IS THE LACK OF DISCUSSION IN THE DOCUMENT OF RECENT DRILLING RESULTS FOR THE FIELD DEVELOPMENT PORTION, WHICH SUGGEST, ACCORDING TO OUR SOURCES, THE POSSIBILITY OF A VERY SUBSTANTIAL, POSSIBLY "GIANT" OIL FIELD, WHICH IS LIKELY TO LEAD TO A SUBSTANTIAL RESTRUCTURING OF THE ENTIRE FIELD DEVELOPMENT AND PIPELINE PORTIONS OF THE PROJECT AND A VERY SUBSTANTIAL INCREASE IN AN ALREADY HIGH RATE OF RETURN. COULD STAFF PLEASE COMMENT?

-- AS I HAVE STATED REPEATEDLY IN THE PAST, IN OUR VIEW, THERE SHOULD ALWAYS BE A PRESUMPTION AGAINST FUNDING HIGH RATE OF RETURN PROJECTS, SUCH AS THE MENTIONED ELEMENTS OF THIS PROJECT. AND I SEE LITTLE EVIDENCE IN THE PRESIDENT'S REPORT THAT EVEN IF COLOMBIA HAD BETTER ACCESS

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TO MARKETS, THE PROJECT WOULD HAVE BEEN SUBSTANTIALLY REVISED. THE DOCUMENT ITSELF DOES NOT CLAIM THAT IBRD PARTICIPATION IS ESSENTIAL FOR THE PROJECT TO GO FORWARD. PARA. 43, PAGE 16 SIMPLY STATES THAT THE BANK'S LOAN "WOULD EASE ECOPETROL'S TASK OF RAISING FUNDS." AND WITH RESPECT TO TIED EXPORT CREDIT AGENCY FINANCING, I SIMPLY NOTE THAT SUCH FINANCING IS ASSOCIATED WITH THE PIPELINE PORTION OF THE PROJECT, WHICH WE SUPPORT.

-- TAKING INTO CONSIDERATION ALL OF THE ABOVE FACTS, MY AUTHORITIES HAVE INSTRUCTED ME TO BE RECORDED AS OPPOSING THIS LOAN.

-- FINALLY, I WANT TO MAKE IT CLEAR THAT THIS POSITION IS NOT DIRECTED AT THE COLOMBIAN AUTHORITIES, BUT RATHER REFLECTS THE LONG-STANDING POSITION OF THIS CHAIR THAT WORLD BANK LENDING OPERATIONS IN GENERAL -- AND ENERGY AND HYDROCARBON LENDING IN PARTICULAR -- SHOULD ALWAYS BE SENSITIVE TO THE POSSIBILITY THAT ALTERNATIVE SOURCES OF FINANCE CAN BE MOBILIZED FOR SPECIFIC OPERATIONS, AND THAT THIS SENSITIVITY SHOULD BE AMPLY

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DEMONSTRATED IN PROJECT IDENTIFICATION AND APPRAISAL. ALTHOUGH THIS PROJECT DOES CONTAIN COFINANCING ELEMENTS, WE BELIEVE IT DOES NOT DEMONSTRATE A SUFFICIENT DEGREE OF SENSITIVITY TO THIS BASIC OBJECTIVE.

END TEXT.

2. POST CAN DRAW UPON U.S. POLICY IN REF A, AS NECESSARY, FOR MORE COMPLETE STATEMENT AND BACKGROUND OF UNDERLYING RATIONALE FOR U.S. POSITION.
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